Poverty and Social Exclusion in Central, Eastern and South-Eastern European Member States

Knogler, Michael

Institut für Ost- und Südosteuropaforschung
Institute for East and Southeast European Studies

Department of Economics

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Institut für Ost- und Südosteuropaforschung
Landshuter Straße 4, D-93047 Regensburg
Telefon: ++49 (09 41) 943 54-10
E-Mail: info@ios-regensburg.de
Internet: www.ios-regensburg.de

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Michael Knogler

Since the beginning of the crises in 2008 the number of Europeans at risk of poverty or social exclusion has significantly increased by 6.7 million, now affecting 24.8% of the European population. However, the crisis has not had a homogenous impact across the European Union with high poverty rates especially in most of the central, eastern and south-eastern European Member States. This Policy Issue focuses on poverty and deprivation in the new central and south-eastern European Member States (NMS 10).[1] It highlights the current state of play and recent trends in the extent of poverty and its links to inequality. A combination of social and labour market inclusion policies, including adequate livelihoods, implementing effective activation policies and providing access to adequate services, is the key to contain and reverse recent increases in poverty and social exclusion.

Introduction

In the light of the interdependence between economic, employment and social cohesion policies the Europe 2020 strategy gives prominence to “inclusive growth” and cohesive society. Poverty and social exclusion are seen as major obstacles to achieving the objective of inclusive growth. Therefore, one of the five headline targets explicitly deals with fighting poverty and social exclusion in order to ‘lift 20 million people out of poverty and exclusion’ by 2020 (European Commission 2010).

To monitor progress towards this target, a new monitoring and accountability scheme was introduced to examine the progress achieved (European Commission, 2011). To reflect the multidimensional nature of poverty and social exclusion, the definition of the EU headline poverty and social exclusion target is based on a combination of three indicators: at-risk-of-poverty rate (i.e. low income), severe material deprivation rate, and share of people living in very low work intensity households (see box below). People who find themselves in any of these three categories form the ‘population at risk of poverty or social exclusion’.

The at-risk-of-poverty rate refers to the situation of people whose disposable income is below 60% of the median income of their country. It is a relative measure of poverty linked to income distribution which takes into account all sources of monetary income including market income and social transfers in the respective country with no respect to income inequalities between different countries. This concept of relative poverty has already been used to monitor the inclusion policy operated by the Directorate-General for Employment and Social Affairs. Social inclusion is perceived as avoidance of social marginality within national societies reflecting the fact that social policy within the EU falls within the national competence.[2]

The severe material deprivation rate refers to the situation of people who cannot afford a number of necessities considered essential to live a decent life in Europe. It reflects both: the distribution of resources within a country as well as differences in living standards across countries and the impact of growth on improving these, especially in countries with lower GDP per capita.

The share of people living in households with very low work intensity refers to the situation of people who live in households where nobody works, but which are not necessarily living on very low income. The indicator is used to monitor labour market exclusion.

In the following chapters comparative changes and developments of poverty and social exclusion in the new Member States are described, and the correlation between relative income poverty, income disparities, and material deprivation in these countries is analysed and compared to the EU average.

Box: Poverty indicators

- *At-risk-of-poverty rate*
  The at-risk-of poverty rate (AROP) is defined as the percentage of people with an equivalised income below 60% of the national equivalised median income. Equivalised income is defined as the total household income (including all sources of current income available to the household after social transfers and direct taxes) divided by its "equivalent size" to take account of the size and composition of the household.
- *Severe material deprivation rate*
  Severe material deprivation (SMD) covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions seriously constrained by a lack of resources, they experience at least 4 out of the 9 following deprivations items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone.
- *People living in households with very low work intensity*
  People living in households with very low work intensity (LWI) are those aged 0–59 living in households where the adults (aged 18–59) worked less than 20% of their total work potential during the past year.

Trends in poverty and social exclusion

The social situation, as indicated by the risk of poverty or social exclusion, deteriorated markedly in the whole EU since the onset of the crises. Between 2008 and 2012 (the years for which most recent Eurostat figures are available) the number of Europeans at risk of poverty or social exclusion has increased by 6.7 million, now affecting 24.8% of the population (Figure 1).

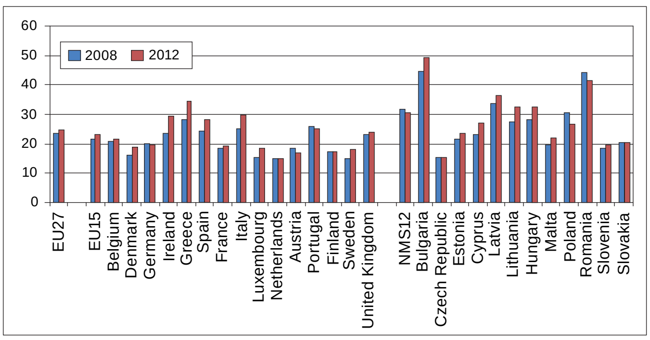
The incidence of poverty and social exclusion resulting from the crisis varies widely across the EU. Generally, it is at a higher level in the NMS12 with more than 40% of the population concerned in Bulgaria and Romania. Only the Czech Republic, Slovakia, and Slovenia disperse rates below the EU15 average. Across the Member States the share has increased in the EU15 with marked increases in Spain (3.7 percentage points – pp), Greece (6.5 pp), Italy (4.6 pp), and Ireland (5.7 pp), whereas in the NMS12 the share decreased by one percentage point. However, within the NMS12, the declining rate of poverty or social exclusion is mainly due to the marked decrease in Poland (–3.8 pp) – which was the country least affected by the crisis in the EU – and Romania (behind Bulgaria) with the highest poverty and exclusion rate, whereas in Bulgaria, Lithuania, and Hungary the rates increased by more than 4 percentage points.

Similar trends can be seen with respect to the at-risk-of-poverty indicator (Figure 2). Among the NMS only Slovenia and Slovakia show a significant increase of poverty rates between 2008 und 2012, although both countries besides the Czech Republic (9.6%: the lowest AROP in the EU) disperse the lowest AROP among NMS countries with 13.5 and 13.2% resp. Latvia shows a marked decrease of AROP, but still has one of the highest AROP in the NMS with 19.4 behind Bulgaria (21.2) and Romania (22.6). Since 2012 the highest AROP in the EU has Greece with 23.1%.

However, the AROP indicator is a relative income poverty measure. It depends on the income poverty threshold (60% of median equivalised income) which is influenced by the general level of income and the income distribution. The poverty threshold varies greatly across the EU Member States from 2106 PPS (Purchasing Power Standard) in Romania to 15996 PPS in Luxembourg (2012). In the NMS the lowest thresholds (Romania, Bulgaria, Lithuania, Latvia) are three to four times lower than the highest in the EU15 (Luxembourg, Austria, Netherlands). This indicates that there are great income differences between the EU15 and the NMS which has to be taken into account when the development of poverty rates is evaluated.

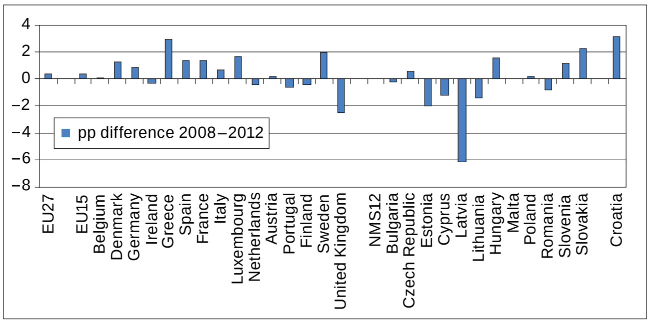
As the economic crisis hits the working population first with rising unemployment and decreasing wages, the median income may decline. Since 2008 the median income in PPS has strongly fallen in Greece, Spain, Latvia, and Lithuania. In these countries with a declining median income the poverty threshold has been lowered. People with an income slightly below the poverty threshold may then get above the poverty threshold even if their income hasn't increased, simply because the median income, and in consequence also the poverty threshold, had dropped. This explains the marked decrease in poverty rates in Latvia.

Figure 1: People at-risk-of-poverty or social exclusion 2008–2012



Source: Eurostat.

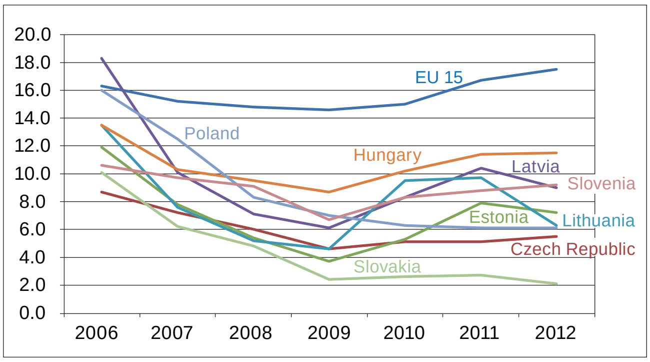
Figure 2: At-risk-of-poverty rate 2008–2012



Source: Eurostat; own calculations.

The at-risk-of-poverty rate anchored at a fixed point in time – an indicator which uses the poverty threshold fixed in 2005 to estimate the poverty rate and thus offers information on the development of living standards – indicates that in all NMS poverty rates were declining since 2006 and rising again after 2009 (with the exception of Poland) (Figure 3).

Figure 3: At-risk-of-poverty rate anchored at a fixed time (2005), 2006–2012

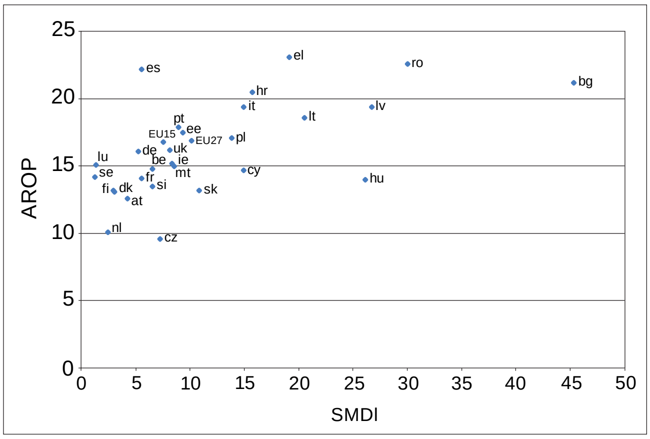


Source: Eurostat.

High levels of severe material deprivation in Eastern Europe

Figure 4 shows the great discrepancy between the levels of monetary poverty (as measured by the at-risk-of-poverty rate – AROP) and living conditions (as measured by severe material deprivation – SMD). It illustrates that poverty rates do not necessarily reflect material deprivation in its entirety in the NMS10. Only Slovenia, Slovakia, and the Czech Republic are below EU 27 average. Although the relative poverty rate in these countries is very low, material deprivation affects their populations to a greater extent than the citizens of EU15 countries with a higher relative poverty rate. Generally the at-risk-of-poverty rate in many NMS10 countries is comparable to that of old Member States, but only in new Member States relative income poverty is linked to severe material deprivation. The share of people living in severe material deprivation is significantly higher in new Member States, reflecting the still high income differences across Europe. It is highest in Bulgaria and Romania (45% and 30% resp.), but also higher than in any EU15 country in Latvia, Lithuania, and Hungary.

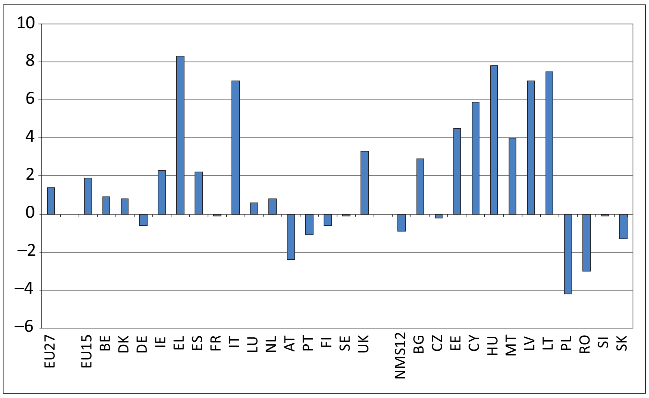
Figure 4: SMD and AROP (in %), 2012



Source: Eurostat.

Living conditions have significantly deteriorated between 2008 und 2012 across the EU as there are seven million more people living in severe material deprivation in 2012 than in 2008. This is mainly due to worsened living conditions in old Member States (eight million more people are living in severe material deprivation in 2012 than in 2008) especially in Greece, Spain, and Italy (in Italy 4.5 million in 2008 compared to 8.8 million in 2012), whereas in the new Member States, taken as a whole, living conditions slightly improved (one million people less in 2012 compared to 2008). However, in most NMS, the share of people who have been confronted with declining living standards, as measured by the level of severe deprivation, increased in 2012 compared to 2008 by over seven percentage points in Hungary, Latvia, and Lithuania. Bulgaria and Romania registered a small increase and decrease respectively but they are the two countries with the highest severe material deprivation rates, as shown in Figure 5.

Figure 5: Severe material deprivation 2008–2012, pp difference 2008–2012



Source: Eurostat; own calculations.

Rising differences in inequalities

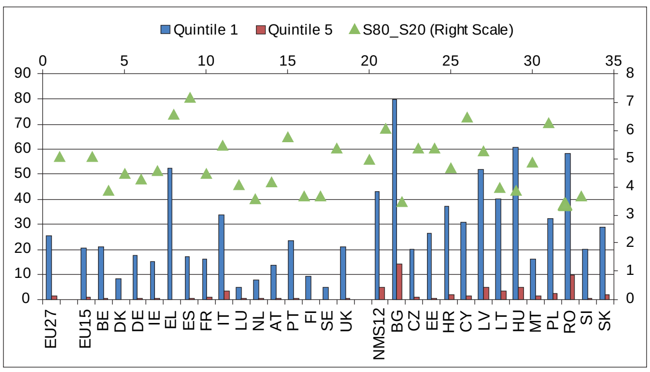
Not only poverty but also inequality has increased in European countries – as in other developed countries – since the mid-1980s. While poverty concentrates on the situation of those at the bottom of the income distribution, overall inequality shows how resources are distributed across the whole society which affects the extent and depth of poverty. This is particularly important as the EU 2020 strategy focuses predominantly on relative poverty and includes no explicit plan to reduce income inequality.

Since 2008, income inequality in the EU did not rise significantly overall, but increased in some Member States, particularly in Southern Europe. There are now significant inequalities in the distribution of income in the EU as measured by the S80/S20 quintile ratio[3]: on average, the top 20% earned 5.1 times as much income as the bottom 20% in 2012. Among the EU15, this ratio is low in Scandinavian countries like in Sweden and Finland (3.7) and high in Spain and Greece (6.6 in Greece and 7.2 in Spain; 0.7 and 1.5 resp. percentage points higher than in 2008). Across the new Member States, the Czech, Slovak republics and Slovenia display low ratios (3.5, 3.7, 3.4) whereas in Bulgaria, Romania, and the Baltic States 80/20 quintile ratios are very high (Figure 6). The GINI Index[3] shows similar trends.

In order to analyse the whole extent of severe material deprivation within strata hit by relative income poverty, as well as dimensions of social inequality within these countries, the income distribution and the level of severe material deprivation across income quintiles are used. Figure 6 illustrates how material deprivation affects people at the lower (Quintile 1) and higher (Quintile 5) end of income distribution. The average material deprivation within the whole society in the EU15 with 7.3% is 12.4 pp. lower than in the EU10 (19.7%), in the lower income quintile the difference is considerably larger (42.9% in NMS vs. 20.6% in the EU15).

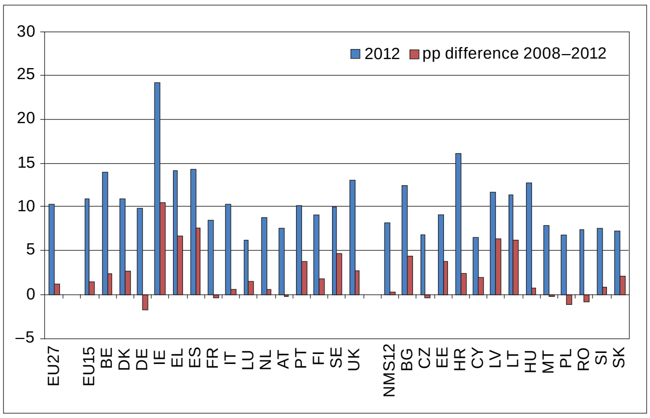
In the old Member States with high GDP per capita material deprivation in the bottom quintile of income distribution is in part considerably below the European average, the difference between Quintile 1 and Quintile 5 is less significant. In the new Member States with low GDP per capita material deprivation at the lower end of income distribution is more severe, the distances to the higher end is more significant. A striking fact is that material deprivation at the bottom quintile in rich western European countries, like Sweden, the Netherlands and Denmark, is less severe than deprivation in the top quintile in Romania.

Figure 6: SMD at different quintiles, in %, 2012



Source: Eurostat.

Figure 7: Households with LWI, in %, 2012



Source: Eurostat; own calculations.

How in detail low income groups are affected by material deprivation in the NMS10 is shown in Table 1. As long as there is no data available when analysing different dimensions of material deprivation according to income quintiles, the at-risk-of-poverty threshold is used as general threshold in Table 1. In general, all aspects of material deprivation are more remarkable in the NMS10 than the in the EU15 average. Particularly high is material deprivation in countries with a low GDP per capita in Bulgaria and Romania. But also in countries with a relatively high income like the Slovak Republic individual aspects of material deprivation are severe.

Table 1: SMD by items, in % (population below 60% of median equivalised income), 2012

	Inability to					Enforced lack of			
	keep home adequately warm	afford paying for one week annual holiday away from home	afford a meal with meat, chicken, fish (or vegetarian equivalent) every second day	face unexpected financial expenses	make ends meet	a telephone	a colour TV	a washing machine	a personal car
EU27	24.4	70.1	25.9	71.5	27.8	2.3	1.3	4.4	21.9
EU15	22.9	65.1	20.8	68.8	24.4	0.9	1	1.9	18
BG	70.0	96.8	82.7	94	64.6	14.1	5.8	26.7	45.2
CZ	15.3	81.3	33.5	79.6	34.6	1.7	0.6	1.3	30.6
EE	9.6	76.6	28.1	77.6	27.6	1.8	1.2	6.1	33.9
HR	21.8	93.0	35.3	91	48.9	4.4	1.7	6.1	22.1
LV	35.1	84.4	46.1	93.2	44.6	3.8	3.5	12.4	49.6
LT	38.2	74.6	41.6	83.6	28.9	4.1	1.5	8.7	28.8
HU	33.9	94.8	69.5	96.6	61.5	8.3	1.6	3.1	49.2
PL	27.6	88.1	33.9	80.6	33.3	2	1.3	1.4	19.3
RO	25.4	93.8	44.9	77.5	41.3	15.1	4.5	34.8	56.3
SI	17.3	61.5	23.6	75.4	29.4	0.8	2.3	1.6	15.2
SK	13.6	79.6	49.5	67.2	33.7	4	2.4	2.9	36.5

Source: Eurostat.

Increase of households with very low work intensity

As mentioned above, to monitor poverty an additional indicator was implemented, according to which households with a low work capacity (less than 20% of their capacity) are considered as living in poverty or social exclusion. Across new Member States, the share of households with low work intensity is highest in Latvia, Lithuania, Hungary, Bulgaria, and Croatia. Since 2008 the share of population living in households with low work intensity has increased in most Member States. Against the background of rising unemployment rates, this share rose strongly in the Baltic States and Bulgaria (Figure 7).

Although there is a connection between exclusion from labour market and poverty, a working place itself does not always prevent from poverty, like increasing working poverty shows. Currently, against the backdrop of growing low wage sector, 9.1% of employees in Europe are counted as working poor. Working poverty is most striking in Romania (18.9%). As long as this is a relative indicator like the at-risk-of-poverty rate, the high share of employees with an income below 60% of the median income – which is genuinely very low in Romania – appears very alarming.

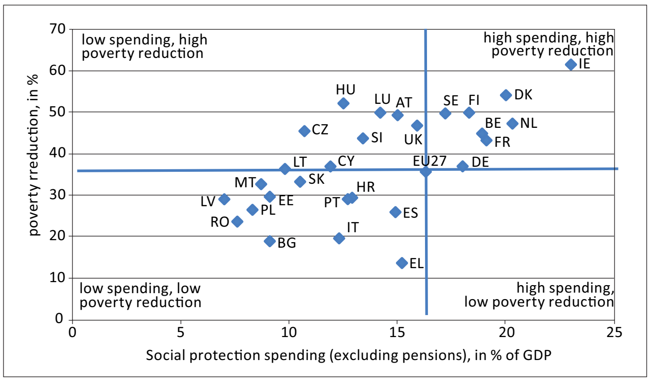
Against this background, the newly introduced indicator "households with low work intensity" seems to be of little significance for capturing poverty and social exclusion. This becomes evident, when it is taken as the only indicator of poverty and social exclusion: All over the European Union almost 40% of the households that are classified as households with low work intensity are neither living below the poverty threshold, nor are they hit by severe material deprivation. Low work intensity may be by choice, so that in extreme cases also well-off retirees are classified as poor and at risk of social exclusion.

Concluding remarks

Variations of the trends of poverty and inequality can partially be related to factors like the resilience of labour markets – and these are in turn determined by factors, among others, like the degree of labour market segmentation, the share of temporary contracts, the strictness of employment protection legislation, the tax wedge, and role of social partners – and adequate income support.

Tax and benefit systems are one of the most important instruments to prevent and address income poverty. In 2011, expenditures on social protection benefits (excluding pensions) reduced poverty rates in the EU from 26% to 17%, i.e. by 36%. However, defining the right level and the kind of social support remains challenging for most countries. The effectiveness and efficiency of social protection spending play an important role in cushioning the effects of the crises on poverty and inequality. An indication of potential efficiency gains of social policy measures is the fact that the same amount of social expenditures reduce at risk of poverty rates significantly stronger in some Member States than in others (Figure 8). Most of new Member States are clustered together with Mediterranean countries (Italy, Spain, Greece, and Portugal) in the area of low spending with low impact on poverty reduction.

Figure 8: Impact of social transfers (excluding pensions) on poverty reduction, 2011



Note: Pensions are regarded as original income because their function is to redistribute income over life cycle.
Source: Eurostat.

However, when the efficiency of social spending is solely measured as poverty reduction per given level of spending, important other goals of social spending are omitted, such as income smoothing and labour market friendliness (European Commission 2013). For instance, Hungary appears very efficient in terms of poverty reduction, though with a weak performance in terms of labour market outcomes, as the country disperses for example a high share of households with low work intensity (figure 7 above). Therefore, a combination of social and labour market inclusion policies, including adequate livelihoods, implementing effective activation policies, and providing access to adequate services, is the key to contain and reverse recent increases in poverty and social exclusion.

Notes

[1] NMS 10: Latvia, Lithuania, Estonia, Poland, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria, and Romania. NMS 12 includes NMS 10 plus Malta and Cyprus. EU 15 includes the old EU Member States.

[2] In contrast, the concept of social cohesion refers to equality between countries and regions within the EU, particularly with regard to the level of economic development. The mission of the Directorate-General (DG) for Regional and Urban Policy is to strengthen economic, social and territorial cohesion by reducing disparities between the levels of development of regions and countries of the European Union and by tackling income inequalities in order to reach the median income of the European Union. Main indicator is the GDP per capita in purchasing power parities.

[3] The S80 / S20 ratio is the ratio of the total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income. The higher the ratio the greater the inequality. Another way of measuring the inequality of distribution of income is the GINI coefficient. It takes account of the full income distribution whereas the S80 / S20 ratio only looks at the top and bottom.

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Abouth the author:

Michael Knogler: IOS Regensburg

http://www.ios-regensburg.de/personen/mitarbeiterinnen/michael-knogler.html